

Message Text

CONFIDENTIAL

PAGE 01 BONN 11630 01 OF 02 160151Z

63/53

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-03 PA-03

PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01 /160 W

----- 097786

R 151313Z AUG 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6845

C O N F I D E N T I A L SECTION 01 OF 02 BONN 11630

C O R R E C T E D C O P Y - MRN 11630 VICE 11627

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDESBANK VIEWS ON RECENT CREDIT DEVELOP-
MENTS AND THE GOVERNMENT'S NEW DRAFT
BUNDESBANK LAW

1. SUMMARY: BUNDESBANK OFFICIALS REMAIN UNIMPRESSED BY SCATTERED SIGNS OF SOME ECONOMIC SLOWDOWN AND DETERMINED TO MAINTAIN TIGHT CREDIT POLICIES, WHILE AVOIDING THE RECENT ERRATIC RATE MOVEMENTS ON THE MONEY MARKETS. THE BUNDESBANK IS UNHAPPY WITH GOVERNMENT PROPOSALS TYING THE USE OF CREDIT CEILINGS AND A NEW "ACTIVE" RESERVE REQUIREMENT TO GOVERNMENT CONCURRENCE. THE BUNDESBANK WELCOMES PROPOSALS TO TIGHTEN MINIMUM RESERVE REQUIREMENTS FOR BRANCHES OF FOREIGN BANKS. END SUMMARY

2. DURING A RECENT VISIT TO FRANKFURT THE FINANCIAL ATTACHE FOUND BUNDESBANK OFFICIALS GENERALLY UNIMPRESSED BY SOME SCATTERED RECENT SIGNS OF A
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 11630 01 OF 02 160151Z

SLOWDOWN IN THE GERMAN BOOM AND DETERMINED TO STICK

TO THEIR TIGHT MONETARY POLICIES. ON THE OTHER HAND NO BUNDESBANK OFFICIAL TALKED IN TERMS OF A FURTHER TIGHTENING IN THE IMMEDIATE FUTURE DESPITE OF THE ADDITIONAL LEEWAY PROVIDED GERMAN MONETARY POLICY BY INTEREST RATE DEVELOPMENTS ABROAD. BOTH BUNDESBANK OFFICIALS AND PRIVATE BANKERS, HOWEVER, EXPECTED THE GERMAN MONEY MARKET TO SEASONALLY TIGHTEN IN SEPTEMBER WHICH IS A MAJOR TAX MONTH.

3. BUNDESBANK OFFICIALS DID NOT FORESEE THE RECENT CREDIT CRUNCH AND ARE ATTEMPTING TO IMPROVE THEIR METHODS OF PREVENTING SUCH EXTREME AND ERRATIC MOVEMENTS IN GERMAN MONEY MARKET RATES WHICH THEY ATTRIBUTE ALMOST EXCLUSIVELY TO THE GERMAN SYSTEM OF REQUIRING MONTHLY AVERAGE MINIMUM RESERVE HOLDINGS. GERMAN BANKS HAVE TO HOLD DURING A MONTH A DAILY AVERAGE OF MINIMUM RESERVES EQUAL TO THE DAILY AVERAGE OF LIABILITIES SUBJECT TO RESERVES DURING THE PERIOD FROM THE 15TH OF THE PREVIOUS TO THE 15TH OF THE CURRENT MONTH. WHEN TOWARD THE END OF THE MONTH BANKS DISCOVER THAT THEY ARE SHORT OF THIS AVERAGE, THEY HAVE TO INCREASE RESERVES VERY DRASTICALLY DURING THE LAST FEW DAYS IN ORDER TO PUSH UP THEIR MONTHLY AVERAGE. WHEN THE BANKING SYSTEM AS A WHOLE FINDS ITSELF SHORT OF REQUIRED MINIMUM RESERVES MONEY RATES SKYROCKET. LAST MONTH EVERYONE APPARENTLY MISCALCULATED. COMMERCIAL BANKS MAY ONLY HAVE BECOME FULLY AWARE OF THE FULL EXTENT OF THEIR LIABILITIES TOWARD THE VERY END OF THE MONTH BECAUSE OF DEFICIENCIES IN THE SPEED OF THE REPORTING SYSTEM FROM THEIR BRANCHES. IN ADDITION, COMMERCIAL BANKS WERE UNDER GREAT PRESSURE TO CONTINUE TO EXPAND CREDIT BECAUSE OF THEIR LEGAL COMMITMENTS UNDER CREDIT LINE AGREEMENTS (FOR WHICH CUSTOMERS PAY A CHARGE AMOUNTING TO BETWEEN 3/4-4 PERCENT PER ANNUM). THE BUNDESBANK TRIED TO EASE MONEY MARKET CONDITIONS THROUGH ITS SPECIAL LOMBARD CREDIT, BUT FOUND THAT COMMERCIAL BANKS DID NOT HAVE SUFFICIENT DISCOUNTABLE PAPER SINCE THERE SEEMS TO HAVE BEEN

CONFIDENTIAL

PAGE 03 BONN 11630 01 OF 02 160151Z

SOME SWITCH FROM BORROWING AGAINST SUCH PAPER TO INSTEAD UTILIZING CREDIT LINES.

4. THE BUNDESBANK IS NOW CONSIDERING EXPANDING THE COLLATERAL ACCEPTABLE FOR ITS SPECIAL TEN DAY CREDIT TO POSSIBLY INCLUDE BONDS, ETC., AND THUS HOPES TO AVOID FUTURE CREDIT CRUNCHES OF THIS MAGNITUDE. ON THE OTHER SIDE, IT IS OFFERING

TEN- AND FIVE-DAY PAPER TO COMMERCIAL BANKS TO PREVENT MONEY MARKET RATES FROM SINKING BELOW THE DISCOUNT RATE (SEE BONN 11607). IT FEELS IT CANNOT OFFER SUCH PAPER ABOVE THE DISCOUNT RATE TO AVOID BANKS BORROWING MONEY ON DISCOUNT TO INVEST IN MORE PROFITABLE BUNDESBANK PAPER. OFFICIALS ARE, HOWEVER, ALSO CONSIDERING WHETHER IN THE LONGER

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 11630 02 OF 02 160152Z

63/53

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-03 PA-03

PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01 /160 W

----- 097795

R 151313Z AUG 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6846

C O N F I D E N T I A L SECTION 02 OF 02 BONN 11630

C O R R E C T E D C O P Y - MRN 11630 VICE 11627

RUN CHANGES IN THE MINIMUM RESERVE SYSTEM ARE DESIRABLE.

5. BUNDESBANK OFFICIALS ARE UNHAPPY WITH THE PROVISION IN THE GOVERNMENT'S DRAFT BUNDESBANK REFORM LAW WHICH REQUIRES GOVERNMENT CONCURRENCE TO THE USE OF THE TWO NEWLY TO BE CREATED INSTRUMENTS OF CREDIT CONTROL THROUGH CREDIT CEILINGS AND A SPECIAL RESERVE REQUIREMENT FOR ADDITIONAL CREDIT EXPANSION. IT IS NOT YET CLEAR IF THE BUNDESBANK WILL FORMALLY OPPOSE THESE PROVISIONS AND INDICATE THAT IT WOULD PREFER TO SEE THEM ELIMINATED FROM THE BILL RATHER THAN TO

HAVE THEIR USE MADE SUBJECT TO GOVERNMENT CONCURRENCE.

6. THE BUNDESBANK, ON THE OTHER HAND, WELCOMES
A PROVISION OF THE BILL PROVIDING THAT BRANCHES
OF FOREIGN BANKS IN THE FRG SHALL FOR MINIMUM
RESERVE PURPOSES BE TREATED AS IF THEY WERE
INDEPENDENT ENTITIES. THIS WOULD RESULT IN THE
GROSS LIABILITIES OF SUCH BRANCHES TO THEIR
PARENTS BECOMING SUBJECT TO MINIMUM RESERVES RATHER
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 11630 02 OF 02 160152Z

THAN AS AT PRESENT ONLY THE BALANCE BETWEEN
LIABILITIES TO AND CLAIMS ON THE PARENT.
CASH

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 15 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BONN11630
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS CASH
Errors: N/A
Film Number: n/a
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730837/aaaabbba.tel
Line Count: 187
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2001 by izenbei0>; APPROVED <12-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BUNDESBANK VIEWS ON RECENT CREDIT DEVELOP- MENTS AND THE GOVERNMENT'S NEW DRAFT
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005